

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Road Commission for Oakland County	County Oakland
Audit Date September 30, 2005	Opinion Date December 29, 2005	Date Accountant Report Submitted To State: March 31, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. N/A |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

Road Commission for Oakland County

Financial Report
with Supplemental Information
September 30, 2005

Road Commission for Oakland County

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements - Government-wide/Governmental Fund Financial Statements	
Governmental Funds Balance Sheet/Statement of Net Assets	10
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities	11
Pension Trust Fund - Statement of Plan Net Assets	12
Pension Trust Fund - Statement of Changes in Plan Net Assets	13
Notes to Financial Statements	14-38
Supplemental Information	39
Budgetary Comparison Schedule - Road Fund	40
Budgetary Comparison Schedule - Subdivision Improvement Fund	41

Independent Auditor's Report

To the Board of Road Commissioners
Road Commission for Oakland County

We have audited the accompanying basic financial statements of the Road Commission for Oakland County, Michigan as of and for the year ended September 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission for Oakland County, Michigan at September 30, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not a required part of the basic financial statements but are supplemental information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Road Commission for Oakland County. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Road Commissioners
Road Commission for Oakland County

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2005 on our consideration of the Road Commission for Oakland County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

December 29, 2005

Road Commission for Oakland County

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Road Commission for Oakland County (the "Road Commission") provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2005. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The governmental funds balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified-accrual basis, and then in total on a full-accrual basis. The modified-accrual fund-based columns present a short-term view of the Road Commission; they tell us how much is available for future spending. The total full-accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified-accrual basis, and then in total on a full-accrual basis. The modified-accrual fund-based columns tell us how the motoring public's money was spent during the year, while the total full-accrual column tells us the cost of providing services this year, as well as whether the motoring public has paid the full cost of providing services this year.

These two statements are followed by the Pension Trust Fund statement of plan net assets and statement of changes in plan net assets. These statements provide information about the retirement system, for which the Road Commission acts solely as trustee for the benefit of current and future retirees.

Financial Analysis of the Road Commission as a Whole

The following table provides condensed information about the total full-accrual finances of the Road Commission as of September 30, 2005 and 2004 and for the years then ended. As discussed above, the total full-accrual columns report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets may be one indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Road Commission, the reader also needs to consider additional nonfinancial factors such as changes in the condition of the Road Commission's roads and changes in the laws related to gas taxes and their distribution.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

	September 30	
	2005	2004
Assets		
Current and other assets	\$ 91,037,063	\$ 102,642,460
Capital assets	574,167,151	542,873,180
Total assets	665,204,214	645,515,640
Liabilities		
Current liabilities	32,627,153	38,813,535
Long-term liabilities	13,798,638	16,645,433
Total liabilities	46,425,791	55,458,968
Net Assets		
Invested in capital assets - Net of related debt	564,267,151	529,498,180
Unrestricted	54,511,272	60,558,492
Total net assets	<u>\$ 618,778,423</u>	<u>\$ 590,056,672</u>
Statement of Activities		
Revenues:		
State aid - Act 51	\$ 61,014,418	\$ 64,494,903
Other state sources	20,181,831	15,077,221
Federal sources	13,584,518	26,129,586
Revenue from county and local governments	14,479,205	11,666,567
Other	6,671,016	7,011,043
Total revenue	115,930,988	124,379,320
Expenses:		
General administration	4,181,586	4,313,109
Departmental operations and maintenance	36,556,246	37,031,170
Nondepartmental	14,076,521	13,202,160
Interest	476,527	549,800
Depreciation	31,847,809	30,409,823
Total expenses	87,138,689	85,506,062
Change in net assets - Before extraordinary item	28,792,299	38,873,258
Extraordinary item	(70,548)	1,650,833
Change in net assets	<u>\$ 28,721,751</u>	<u>\$ 40,524,091</u>

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

The Road Commission's net assets increased approximately 4.9 percent, from \$590,056,672 to \$618,778,423 for the year ended September 30, 2005. This was primarily because capital grants and donations were provided in the current year for capital expenditures that will be recognized in future years as depreciation expense. The investment in capital assets, net of accumulated depreciation and disposals, increased by \$31,293,971 and \$36,989,243 for the years ended September 30, 2005 and 2004, respectively.

The Road Commission's revenue for the year ended September 30, 2005 decreased approximately 6.8 percent from the prior year total, without consideration of the extraordinary item. This decrease was due principally to decreased federal revenue representing participation in road construction projects. Road construction activity of the current year was relatively consistent with that of the preceding year. Total expenses for the fiscal year ended September 30, 2005 were approximately 1.9 percent more than the preceding year's total.

Financial Analysis of Individual Funds of the Road Commission

The Road Commission currently has two operating funds: the Subdivision Improvement Fund, which accounts for the activity of special assessment districts, and the Road Fund, which accounts for all of the other operating activity of the Road Commission. The reporting of the individual governmental funds focuses on the inflows and outflows of money and the balances left at year end that are available for spending. These funds report using an accounting method called modified-accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The individual fund columns provide a detailed short-term view of the Road Commission's general operations and the basic services it provides. Individual fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services.

The Road Fund is used to account for the general operations of the Road Commission. It is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the Road Commission, which are earmarked by law for road and highway purposes. For the year ended September 30, 2005, the fund balance of the Road Fund decreased by \$828,542. Total revenues were \$115,703,535, without consideration of the extraordinary item, and total expenditures were \$116,670,822, which represented decreases from the prior year of 6.3 percent and 2.3 percent in revenues and expenditures, respectively. Both decreases were due principally to the decrease in the amount of road and facilities construction and road maintenance performed during the current year and the related amount of revenue support from other units of government. The size of next year's construction program anticipates the use of funds collected in the current and prior years and is expected to result in a decrease in next year's fund balance.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

Budgetary Highlights

Prior to beginning each year, the Road Commission's budget is prepared based upon certain assumptions and facts available at that time. During the year, the Road Commission board amends its budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was adopted. In addition, by policy, the board reviews and authorizes large expenditures throughout the year.

The amended Road Fund revenue budget for the year ended September 30, 2005 was \$5,395,896 lower than the original budget, due primarily to the budget adjustments to reflect less participation from federal sources and other units of government in the Road Improvement Program (RIP). Several times during the year, the RIP budget is amended to more accurately reflect construction activity. These amendments include the related revenue adjustments. The actual revenue recognized during the year ended September 30, 2005 was less than the amended budget by \$7,329,624.

The amended Road Fund expenditure budget for the year ended September 30, 2005 was \$4,073,873 higher than the original budget, due primarily to capital outlay and contracted services expenditures. Each year, the original budget is amended for the prior year's capital outlay, contracted services, and RIP expenditures that were committed to in the prior year but where the goods were not received or services were not performed until the subsequent year. The actual expenditures recognized during the year ended September 30, 2005 were less than the amended budget by \$30,327,722, due principally to this type of expenditure timing difference.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2005 and 2004, the Road Commission had invested \$574,167,151 and \$542,873,180, respectively, in net capital assets. This year's amount represents a net increase (including additions, deletions, and depreciation) of \$31,293,971, or approximately 5.8 percent. The Road Commission added \$66,497,366 to its investment in capital assets during the current year, including \$55,613,770 of infrastructure additions. Depreciation of capital assets is provided for annually over estimated future lives. Infrastructure construction is funded by federal, state, and local contributions, as well as by Road Commission revenues. Capital asset additions for the current and prior year include the following:

	<u>2005</u>	<u>2004</u>
Buildings and storage bins - Including land and construction in progress	\$ 4,596,277	\$ 2,124,336
Road equipment	5,476,039	4,559,367
Other equipment	410,754	328,797
Brine wells and gravel pits	296,895	-
Infrastructure - Including land	<u>55,613,770</u>	<u>61,104,711</u>
Total additions	<u><u>\$ 66,393,735</u></u>	<u><u>\$ 68,117,211</u></u>

Debt Administration

At September 30, 2005 and 2004, the Road Commission had \$9,900,000 and \$11,875,000, respectively, in outstanding notes payable.

Other long-term obligations include accrued vacation pay and sick leave, as well as reserves for various losses. More detailed information about the Road Commission's long-term liabilities is presented in Note 5 to the financial statements.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

While preparing its fiscal year 2006 budget, the Road Commission conservatively considered the impact of two relatively recent events: the fiscal year 2004 change in the state's collection of trailer registration fees and the fiscal year 2005 adjustment to the state-wide allocation of the Michigan Transportation Fund (MTF) "urban boundaries factor." The change in the state's collection of trailer registration fees will force a reduction in 2006 MTF revenue projections since less funding will be generated than in prior years. In addition, the Road Commission must further reduce its 2006 budgeted MTF revenue in response to recent changes in the state-wide MTF distributions. As a result of the 2000 census information, the Michigan Department of Transportation (MDOT) adjusted the state-wide allocation of the MTF "urban boundaries factor" to all Michigan road commissions. Distributed monthly, this factor represents an initial allocation of 10 percent of all the state revenues going to road commissions with roads within an established urban area as defined by the Federal Highway Administration (FHWA) and MDOT. Population density is used to determine when a land area can be included within an urban area. The intent of the "urban boundaries factor" is to return additional money to urban counties that have more traffic to deal with than the rural counties. In the census, the Road Commission's urban area expanded to include the effect of new subdivisions (population) that have been built in the growing townships bordering, or partially within the old urban boundary, thereby classifying more road miles as urban and eligible for the extra urban allocation. However, the other Michigan counties also examined the development that had occurred and made adjustments to their urban boundaries, thus adding even more urban road miles to the allocation formula. The impact of all of these changes dramatically reduced the Road Commission's share of the state-wide urban road distribution.

Another consideration in preparing the 2006 budget included the adverse impact of the recent transfer of \$10 million from the MTF to the Secretary of State. In addition, in its on-going effort to balance its budget, the Michigan state government continues to evaluate various alternatives for shifting state-wide financial resources and this evaluation may include reallocating current resources from transportation purposes to other uses.

Due to the above reasons, the Road Commission is forced to conservatively forecast and to reduce its MTF revenues for its fiscal 2006 budget.

Overall, the fiscal 2006 budget reflects that the Road Commission's primary revenue source (MTF) is not keeping up with the inflationary increases in its normal operating costs. As a result, next year's budget must include reduced expenditures for road improvement projects and maintenance activities (exclusive of items carried over from fiscal 2005). Implicit in next year's budget is the fact that without adequate increases in its MTF revenue, the Road Commission will have diminishing resources for road improvement and maintenance activities.

Road Commission for Oakland County

Management's Discussion and Analysis (Continued)

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Oakland County administrative offices at 31001 Lahser Road, Beverly Hills, Michigan 48025.

Road Commission for Oakland County

Governmental Funds Balance Sheet/Statement of Net Assets September 30, 2005

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Net Assets
Assets					
Cash and cash equivalents (Note 3)	31,039,508	5,023,223	\$ 36,062,731	\$ -	\$ 36,062,731
Investments (Note 3)	20,525,000	-	20,525,000		20,525,000
Receivables:					
Accounts	23,769,231	-	23,769,231	-	23,769,231
Investment income	319,013	-	319,013	-	319,013
Special assessments	-	6,035,911	6,035,911	-	6,035,911
Internal receivables	753,308	(753,308)	-	-	-
Inventory	3,849,847	-	3,849,847	-	3,849,847
Deposits, prepaid expenses, and other assets	475,330	-	475,330	-	475,330
Capital assets - Net (Note 4):					
Assets being depreciated	-	-	-	450,789,090	450,789,090
Assets not being depreciated - Land and other	-	-	-	123,378,061	123,378,061
Total assets	<u>\$ 80,731,237</u>	<u>\$ 10,305,826</u>	<u>\$ 91,037,063</u>	<u>\$ 574,167,151</u>	665,204,214
Liabilities and Fund Balances					
Liabilities					
Accounts payable	9,128,774	65,509	\$ 9,194,283		9,194,283
Advances and deferred revenue	19,363,984	6,035,911	25,399,895	(8,093,874)	17,306,021
Deposits	2,360,824	-	2,360,824		2,360,824
Accrued liabilities	1,723,209	-	1,723,209	67,816	1,791,025
Notes payable - Due within one year (Note 5)	-	-	-	1,975,000	1,975,000
Notes payable - Due in more than one year (Note 5)	-	-	-	7,925,000	7,925,000
Other long-term liabilities (Notes 5 and 7)	-	-	-	5,873,638	5,873,638
Total liabilities	32,576,791	6,101,420	38,678,211	7,747,580	46,425,791
Fund Balances					
Reserved (Note 8)	12,724,555		12,724,555	(12,724,555)	-
Unreserved - Designated (Note 9)	35,429,891	4,204,406	39,634,297	(39,634,297)	-
Total fund balances	48,154,446	4,204,406	52,358,852	(52,358,852)	-
Total liabilities and fund balances	<u>\$ 80,731,237</u>	<u>\$ 10,305,826</u>	<u>\$ 91,037,063</u>		
Net Assets					
Investment in capital assets - Net of related debt				564,267,151	564,267,151
Unrestricted				54,511,272	54,511,272
Total net assets				<u>\$ 618,778,423</u>	<u>\$ 618,778,423</u>

Road Commission for Oakland County

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended September 30, 2005

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
Revenue					
State aid - Act 51	\$ 61,014,418	\$ -	\$ 61,014,418	\$ -	\$ 61,014,418
Other state sources	20,645,065	-	20,645,065	(463,234)	20,181,831
Federal sources	15,635,125	-	15,635,125	(2,050,607)	13,584,518
Revenue from county and local governments	15,136,002	-	15,136,002	(656,797)	14,479,205
Special assessment revenue	-	2,845,468	2,845,468	(510,073)	2,335,395
Interest	1,581,588	390,947	1,972,535	-	1,972,535
Fees and other revenue	1,691,337	-	1,691,337	671,749	2,363,086
Total revenue	115,703,535	3,236,415	118,939,950	(3,008,962)	115,930,988
Expenditures					
General administration	4,565,543	-	4,565,543	(383,957)	4,181,586
Central operations	11,535,182	-	11,535,182	(3,315,135)	8,220,047
Engineering department	5,276,509	-	5,276,509	(5,276,509)	-
Traffic department	10,204,779	-	10,204,779	(3,757,243)	6,447,536
Permits and environmental concerns	1,184,394	-	1,184,394	(1,150,049)	34,345
Maintenance department	26,086,119	-	26,086,119	(4,231,801)	21,854,318
Nondepartmental	17,369,469	-	17,369,469	(3,292,948)	14,076,521
Debt service:					
Principal payments	1,241,507	733,493	1,975,000	(1,975,000)	-
Interest and other	317,793	167,096	484,889	(8,362)	476,527
Depreciation expense			-	31,847,809	31,847,809
Project expenditures:					
Road improvement program and construction	36,340,371	3,135,554	39,475,925	(39,475,925)	-
Southeast Michigan snow and ice management	23,273	-	23,273	(23,273)	-
Signals	2,438,992	-	2,438,992	(2,438,992)	-
Intelligent transportation systems	86,891	-	86,891	(86,891)	-
Total expenditures	116,670,822	4,036,143	120,706,965	(33,568,276)	87,138,689
Excess of Expenditures Over Revenue/Change in Net Assets - Before extraordinary item	(967,287)	(799,728)	(1,767,015)	30,559,314	28,792,299
Extraordinary Item - Gain (loss) on insurance recovery (Note 14)	138,745	-	138,745	(209,293)	(70,548)
Change in Fund Balances/Net Assets	(828,542)	(799,728)	(1,628,270)	30,350,021	28,721,751
Fund Balances/Net Assets - October 1, 2004	48,982,988	5,004,134	53,987,122	536,069,550	590,056,672
Fund Balances/Net Assets - September 30, 2005	\$ 48,154,446	\$ 4,204,406	\$ 52,358,852	\$ 566,419,571	\$ 618,778,423

Road Commission for Oakland County

Pension Trust Fund Statement of Plan Net Assets December 31, 2004 (Note 1)

Assets

Cash and short-term investments (Note 3)	\$ 5,420,330
Receivables - Interest and dividends	695,160
Investments (Note 3):	
U.S. government obligations	9,062,443
U.S. agencies obligations	24,496,792
Corporate bonds	26,035,418
Corporate equities	95,224,873
Mutual funds and other investments	189,250
Interest in investment pool	<u>23,159,547</u>
 Total investments	 <u>178,168,323</u>
 Total assets	 <u>184,283,813</u>

Liabilities

Accounts payable - Brokers - Net	1,950,395
Securities lending collateral payable	<u>23,159,547</u>
 Total liabilities	 <u>25,109,942</u>

Net Assets Held in Trust for Pension Benefits	<u><u>\$ 159,173,871</u></u>
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Road Commission for Oakland County

Pension Trust Fund Statement of Changes in Plan Net Assets December 31, 2004 (Note 1)

Additions

Investment income:	
Interest and dividends	\$ 4,586,218
Net appreciation in fair value of investments	9,235,803
Less investment expenses	<u>(833,904)</u>
Net investment income	12,988,117
Employer contributions	2,494,941
Securities lending:	
Interest and fees income	297,664
Less borrower rebates and bank fees	<u>(261,496)</u>
Net securities lending	<u>36,168</u>
Total net additions	15,519,226
Deductions - Benefit payments	<u>6,535,495</u>
Net Increase	8,983,731
Net Assets Held in Trust for Pension Benefits	
January 1, 2004	<u>150,190,140</u>
December 31, 2004	<u><u>\$ 159,173,871</u></u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note I - Significant Accounting Policies

The Road Commission for Oakland County, Michigan (the "Road Commission") is a governmental agency, legally titled the Board of County Road Commissioners of the County of Oakland, which is responsible for the maintenance and construction of the county road system in the county. The Road Commission's financial statements will be included in the basic financial statements of the County of Oakland, Michigan.

All funds of the Road Commission have a September 30 year end except the Retirement System, which is on a calendar year reporting basis. The September 30, 2005 financial statements of the Road Commission include certain Retirement System financial data as previously reported at December 31, 2004, the latest available financial statements of the Retirement System.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

In accordance with GASB No. 34 definitions, the Road Commission has summarized its September 30, 2005 revenue into the following program revenue categories:

Charges for services	\$ 21,830,718
Operating grants and contributions	62,643,669
Capital grants and contributions	<u>31,456,601</u>
Total revenue	<u>\$ 115,930,988</u>

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and have been stated in conjunction with the government-wide financial statements.

The major individual governmental fund is reported as a separate column in the fund financial statements.

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2005**

Note I - Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized as the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are generally recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Commission reports the following major governmental fund:

Road Fund - The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note I - Significant Accounting Policies (Continued)

The Road Commission also reports the following additional funds:

Subdivision Improvement Fund - The Subdivision Improvements Fund (a nonmajor governmental fund) is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property.

Pension Fund - The Pension Trust Fund is used to account for assets held by the Road Commission in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Retirement System is a Pension Trust Fund.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Accounts Receivable and Deferred Revenue - Accounts receivable are primarily amounts due from other units of government. Accounts receivable at September 30, 2005 are recorded net of approximately \$127,000 of allowances.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of advances and deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Advances and deposits	\$ -	\$ 17,306,021
Accounts receivable	1,257,232	-
Special assessments receivable	6,035,911	-
Insurance proceeds receivable	501,728	-
Grant revenue receivable	299,003	-
Total	<u>\$ 8,093,874</u>	<u>\$ 17,306,021</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note I - Significant Accounting Policies (Continued)

Inventory and Prepaid Items - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items or deposits in both governmental-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation charges in 2005 totaled \$31,847,809, based on the following methods and useful lives:

	Methods	Useful Lives - Years
Buildings	Straight-line	45-50
Salt storage bins	Units of production	Various
Road equipment	Sum of years - Digits	5-8
Other equipment	Sum of years - Digits and straight-line	5-10
Brine wells and gravel pits	Straight-line and units of production	Various
Infrastructure:		
Roads	Straight-line	5-30
Other	Straight-line	10-50

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2005**

Note I - Significant Accounting Policies (Continued)

Long-term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statements. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Bond issuance costs are generally reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent tentative management plans that are subject to change.

Other accounting policies are disclosed in other notes to the financial statements.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental Funds Fund Balance	\$ 52,358,852
Capital assets used in governmental activities are not financial resources and are not reported in the funds	574,167,151
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	6,035,911
Federal, state, local, and other receivables not collected within 60 days of year end are not available to pay for current year expenditures	2,057,963
Long-term notes payable that are not due and payable in the current period and are not reported in the funds	(9,900,000)
Long-term portion of compensated absences liability and provision for uninsured workers' compensation and general liability losses that are not reported in the funds	(5,873,638)
Accrued interest payable is not reported in the funds	<u>(67,816)</u>
Government-wide Net Assets	<u>\$ 618,778,423</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net Change in Fund Balances - Total governmental funds	\$ (1,628,270)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	31,293,971
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	(510,073)
In the governmental funds, federal, state, and local revenues (including insurance claims receivable) not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	(3,289,034)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,975,000
Changes in accumulated sick and vacation pay, as well as estimated general liability and workers' compensation claims, are recorded when earned in the statement of activities	871,795
Interest expense is recorded in the statement of activities when a liability is incurred; it is reported in the funds only when payment is due	<u>8,362</u>
Change in Net Assets of Governmental Activities	<u>\$ 28,721,751</u>

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2005**

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles.

The Road Commission has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to several types of risk, which, for other than its Pension Fund assets, are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$57,719,861 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The book balance for these deposits has been reported on the governmental funds balance sheet/statement of net assets as cash and cash equivalents of \$36,062,731 and investments of \$18,125,030. The remainder of the investments balance is described below.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 3 - Deposits and Investments (Continued)

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds, and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a maturity of 270 days or less. At year end, the maturity of the Road Commission's nondeposit investment is as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity Date</u>
Commercial paper	\$2,399,970	10/26/2005

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of its debt security investment were as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Commercial paper	\$2,399,970	A-1	S & P

Concentration of Credit Risk

The Road Commission places no limit on the amount in which it may invest in any one issuer. The Road Commission has approximately \$2.4 million invested in Britannia Building Societies commercial paper at September 30, 2005. This investment represents approximately 11.7 percent of total investments reported on the governmental funds balance sheet/statement of net assets at September 30, 2005.

Retirement System Investments

The Retirement System's deposits and investments at December 31, 2004 are included in the System's statement of plan net assets under the following classifications:

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 3 - Deposits and Investments (Continued)

	Statement of Plan Net Assets Classifications		
	Cash and Short-term Investments	Investments	Total
Deposits	\$ 5,420,330	\$ -	\$ 5,420,330
Investments	-	178,168,323	178,168,323
Total	<u>\$ 5,420,330</u>	<u>\$ 178,168,323</u>	<u>\$ 183,588,653</u>

Deposits

Cash and short-term investments of the System represent bank account deposits of approximately \$561,000 and brokerage short-term funds and a Treasury bill totaling approximately \$4,859,000. The bank deposits are covered by up to \$100,000 of federal depository insurance. Each of the accounts of the System's six investment managers is insured by the Securities Investors Protection Act, up to \$500,000 to replace cash (up to \$100,000), stocks, or bonds held by the broker-dealer.

Investments

The Retirement System's investments are categorized below to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Road Commission or its agent in the Road Commission's name

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Road Commission's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the Road Commission's name

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 3 - Deposits and Investments (Continued)

All of the following Retirement System investments are included in Risk Category 2, with the exception of the noncategorized investments, which are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the Retirement System's investments comply with the investment authority noted above.

	December 31, 2004 <u>Fair Value</u>
Investments - Category 2 (Held by the Retirement System's counterparty in the Retirement System's name):	
U.S. government debt obligations	\$ 9,062,443
U.S. agencies debt obligations	16,184,951
Corporate debt obligations	23,863,722
Corporate equities	83,190,068
Mutual funds and other investments	<u>189,250</u>
Total categorized investments	132,490,434
Investments - Not categorized:	
Investments held by broker-dealers under collateralized securities loans:	
U.S. agencies debt obligations	8,311,841
Corporate debt obligations	2,171,696
Corporate equities	12,034,805
Securities lending short-term collateral interest in investment pool	<u>23,159,547</u>
Total noncategorized investments	<u>45,677,889</u>
Total pension trust fund investments	<u>\$ 178,168,323</u>

State statutes and board of trustees' policies permit participation of the Road Commission's Retirement System in securities lending transactions. The Retirement System, via a securities lending authorization agreement, authorized the custodial bank to lend the Retirement System's securities to broker-dealers and banks pursuant to a form of loan agreement.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 3 - Deposits and Investments (Continued)

During the year ended December 31, 2004, the custodial bank, at the direction of the Retirement System, lent securities and received United States currency as collateral. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities.

The Retirement System did not impose any restrictions during the year ended December 31, 2004 on the amount of the loans the custodial bank made on its behalf. There were no failures by any of the borrowers to return loaned securities or pay distributions thereon during the year ended December 31, 2004. There were no losses to the Retirement System or the custodial bank during the year ended December 31, 2004 resulting from default of the borrowers.

During the year ended December 31, 2004, the Retirement System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a pool. The average duration of such investment pool as of December 31, 2004 was 135 days. Because the loans could be terminated on demand, their duration did not generally match the duration of the investments made with cash collateral. The collateral held and the fair values of the underlying securities on loan of the Retirement System as of December 31, 2004 were \$23,159,547 and \$22,518,342, respectively.

There were no Retirement System investments during 2004 in any one organization (other than the U.S. government) in excess of 5 percent of plan net assets. All investment securities are uninsured, unregistered, and held by the counterparty's trust department in the Retirement System's name except for those assets lent under security lending arrangements or held as the related collateral. Included in the Retirement System's investment portfolio at December 31, 2004 are the following:

- Approximately \$16,866,000 of collateralized mortgage obligations (CMOs) and pools are included in government agency debt obligations, and approximately \$1,379,000 of CMOs are included in corporate debt obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. However, approximately \$2,079,000 of the government agency-held pools are guaranteed agency debt at December 31, 2004. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 3 - Deposits and Investments (Continued)

- Approximately \$4,126,000 and \$6,132,000 of asset-backed securities are included in corporate debt obligations and governmental debt obligations, respectively. These securities are backed by credit card or other receivables and typically include credit enhancements in the form of over-collateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment of these "pay-through" securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - General Fixed Assets and Depreciation

A summary of changes in general fixed assets follows:

	Balance October 1, 2004	Increases	Decreases	Balance September 30, 2005
Governmental Activities				
Capital assets not being depreciated:				
Land:				
Infrastructure	\$ 109,462,585	\$ 12,031,319	\$ -	\$ 121,493,904
Land and other	1,728,766	103,631	-	1,832,397
Construction in progress	2,324,166	989,020	3,261,426	51,760
Subtotal	113,515,517	13,123,970	3,261,426	123,378,061
Capital assets being depreciated:				
Buildings and storage bins	12,120,514	3,607,257	3,950	15,723,821
Road equipment	43,238,105	5,476,039	520,542	48,193,602
Other equipment	5,535,814	410,754	178,981	5,767,587
Infrastructure	658,182,841	43,582,451	-	701,765,292
Brine wells and gravel pits	1,067,337	296,895	-	1,364,232
Subtotal	720,144,611	53,373,396	703,473	772,814,534
Less accumulated depreciation for:				
Buildings and storage bins	(7,282,022)	(364,503)	(3,950)	(7,642,575)
Road equipment	(33,324,983)	(4,642,276)	(519,699)	(37,447,560)
Other equipment	(3,257,747)	(437,523)	(85,664)	(3,609,606)
Infrastructure	(246,231,256)	(26,326,505)	-	(272,557,761)
Brine wells and gravel pits	(690,940)	(77,002)	-	(767,942)
Subtotal	(290,786,948)	(31,847,809)	(609,313)	(322,025,444)
Net capital assets being depreciated	429,357,663	21,525,587	94,160	450,789,090
Net capital assets	\$ 542,873,180	\$ 34,649,557	\$ 3,355,586	\$ 574,167,151

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 5 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the Road Commission as of September 30, 2005:

	Number of Issues	Interest Rate (Percent)	Maturing Through	Principal Outstanding
Notes Payable				
1999 Michigan Transportation Fund revenue note*	1	4.45-4.75	2009	\$ 3,900,000
2001 Michigan Transportation Fund revenue note	1	3.5-4.0	2011	<u>6,000,000</u>
Total notes payable				9,900,000
Other Long-term Liabilities				
Long-term portion of provision for uninsured losses				2,600,000
Long-term portion of compensated absences liability				<u>3,273,638</u>
Total other long-term liabilities				<u>5,873,638</u>
Total long-term debt				<u>\$ 15,773,638</u>

* While these notes will be paid by the Road Fund, it is intended that the Subdivision Improvements Fund will provide the Road Fund with approximately 75 percent of the required debt service funding. At September 30, 2005, approximately \$6,036,000 of special assessment receivables were recorded in the Subdivision Improvements Fund.

Compensated Absences - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 5 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended September 30, 2005:

	Balance October 1, 2004	Reduction	Balance September 30, 2005	Due Within One Year
1999 Michigan Transportation Fund revenue note	\$ 4,875,000	\$ (975,000)	\$ 3,900,000	\$ 975,000
2001 Michigan Transportation Fund revenue note	7,000,000	(1,000,000)	6,000,000	1,000,000
Long-term portion of provision for uninsured losses	3,400,000	(800,000)	2,600,000	-
Long-term portion of compensated absences	3,345,433	(71,795)	3,273,638	-
Total	<u>\$ 18,620,433</u>	<u>\$ (2,846,795)</u>	<u>\$ 15,773,638</u>	<u>\$ 1,975,000</u>

Debt Service Requirements

The annual principal and interest requirements for the years ending September 30 through maturity for all debt outstanding (excluding the liabilities for compensated absences and uninsured losses) are as follows:

Years Ending September 30	Principal	Interest	Total
2006	\$ 1,975,000	\$ 406,900	\$ 2,381,900
2007	1,975,000	328,512	2,303,512
2008	1,975,000	246,650	2,221,650
2009	1,975,000	163,813	2,138,813
2010	1,000,000	80,000	1,080,000
2011	1,000,000	40,000	1,040,000
Total	<u>\$ 9,900,000</u>	<u>\$ 1,265,875</u>	<u>\$ 11,165,875</u>

Interest

Gross interest expense of the Road Commission for the year ended September 30, 2005 approximated \$484,300, of which approximately \$167,000 related to the Subdivision Improvements Fund and the balance to the Road Fund.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 6 - Contingent Liabilities

The Road Commission has been named defendant in numerous accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program (see Note 7). It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's liability for these matters have been recorded as a liability in the Road Fund at September 30, 2005.

There are also several nonaccident liability and condemnation lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's liability for these matters have been recorded in the Road Fund at September 30, 2005.

The Road Commission has received and is receiving federal highway grants through the Michigan Department of Transportation for its Integrated Transportation System (ITS) project. These federal grants have certain compliance provisions including a requirement for nonfederal participation in project costs (matching requirement) and a responsibility for the Road Commission to eventually audit the finalized third-party costs for goods and services that have either been charged to certain project contracts or contributed to the project.

The effect on the recorded revenue and expenditures of the ITS projects, if any, that may result from the Road Commission's future audits of final third-party contract and contribution costs cannot be determined at this time. However, it is the opinion of the management of the Road Commission that such amounts and the resultant effects on fund balance, if any, would not be material.

Note 7 - Insurance Programs

The Road Commission is exposed to various risks of loss related to general liability claims, property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission is uninsured for these claims within certain limits. The details for certain of these risks are discussed below.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 7 - Insurance Programs (Continued)

General Liability Claims

The Road Commission is partially uninsured for general liability claims. Under the plan, the Road Commission is liable for losses up to a retention amount and for the losses in excess of the maximum insurance coverage. Information for the last 10 years is as follows:

Contract Years Ended September 30	Retention		Maximum Insurance Coverage (Per Occurrence and in Aggregate Per Fiscal Year)	
	Limit Per Occurrence	Aggregate Limit Per Year (All Cases)		
1996-2000	\$ 1,000,000	\$ 4,000,000	\$	9,000,000
2001-2005	1,000,000	4,000,000		15,000,000

Workers' Compensation Claims

The Road Commission is partially uninsured for workers' compensation claims. Under the plan, the Road Commission is liable for losses up to a retention amount and for losses in excess of the maximum insurance coverage. Information for the last 10 years is as follows:

Fiscal Year of Occurrence	Retention		Coverage (Per Occurrence and in Aggregate)	
	Limit Per Occurrence	Approximate Aggregate Limit Per Year		
1996-2000	\$ 350,000	No aggregate coverage		Statutory limitation
2001-2005	500,000	No aggregate coverage		Statutory limitation

Medical Claims

The Road Commission is partially uninsured for health care coverage provided to employees (including dependents and retired employees and their spouses). Under the program, the Road Commission is liable for claims up to a retention amount per employee. For the last 12 annual contract periods (September 1, 1994 through August 31, 2006), the retention limit per employee is \$75,000 with no aggregate limitation.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 7 - Insurance Programs (Continued)

Estimated Liabilities

Management has established estimates of the liability for the asserted claims and lawsuits and the unasserted claims related to all of the above-mentioned matters and has recorded the estimated liability at September 30, 2005. However, with respect to unasserted claims, it is not currently possible for management or legal counsel to determine that the ultimate liability, if any, related to these matters will not differ materially from the amounts currently provided.

Changes in the estimated liability for the years ended September 30, 2004 and 2005 are as follows:

	General Liability	Workers' Compensation	Medical	Total
Estimated liability - October 1, 2003	\$ 3,100,000	\$ 1,734,000	\$ 400,000	\$ 5,234,000
Estimated claims incurred, including changes in estimates	2,178,190	735,880	8,461,507	11,375,577
Claim payments, including related legal and administrative expenses	<u>(2,078,190)</u>	<u>(1,269,880)</u>	<u>(8,361,507)</u>	<u>(11,709,577)</u>
Estimated liability - September 30, 2004	3,200,000	1,200,000	500,000	4,900,000
Estimated claims incurred, including changes in estimates	(283,447)	800,248	9,383,798	9,900,599
Claim payments, including related legal and administrative expenses	<u>(516,553)</u>	<u>(790,248)</u>	<u>(9,483,798)</u>	<u>(10,790,599)</u>
Estimated liability - September 30, 2005	<u>\$ 2,400,000</u>	<u>\$ 1,210,000</u>	<u>\$ 400,000</u>	<u>\$ 4,010,000</u>
Estimated current portion - Included in accrued liabilities in the Road Fund	\$ 700,000	\$ 310,000	\$ 400,000	\$ 1,410,000
Estimated long-term portion	<u>1,700,000</u>	<u>900,000</u>	<u>-</u>	<u>2,600,000</u>
Total estimated liability	<u>\$ 2,400,000</u>	<u>\$ 1,210,000</u>	<u>\$ 400,000</u>	<u>\$ 4,010,000</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 7 - Insurance Programs (Continued)

During 2005, the expenditures recorded in the Road Fund under the general liability (including nonaccident claims and approximately \$500,000 of insurance costs), workers' compensation (including claims and approximately \$91,000 of insurance costs), and health care plans (including health care administrative expenses) were approximately \$1,016,600, \$891,200, and \$9,383,800, respectively.

The approximate total cost of risk management for the year was \$10,491,600, consisting of the amounts recorded in the Road Fund totaling \$11,291,600 as detailed in the preceding paragraph less \$800,000 recorded as a decrease of long-term debt obligations (see Note 5).

Note 8 - Reserved Fund Balances

Fund balances have been reserved for the following purposes:

	Governmental Fund - Road Fund	Pension Trust Fund
Construction	\$ 5,869,110	\$ -
Capital outlay and contracted services	6,855,445	-
Employee retirement benefits	-	159,173,871
Total	<u>\$ 12,724,555</u>	<u>\$ 159,173,871</u>

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 9 - Designated Fund Balances

Fund balances of the Road Commission's governmental funds have been designated for the following purposes:

	Road Fund	Subdivision Improvement Fund	Total
Subsequent year's budget	\$ 7,023,523	\$ 932,755	\$ 7,956,278
Future years' capital acquisitions and maintenance projects	4,105,460	-	4,105,460
Future years' tri-party construction participation	6,054,011	-	6,054,011
Construction	7,082,436	-	7,082,436
Other postemployment benefits	5,290,823	-	5,290,823
Long-term portion of provision for:			
Uninsured losses	2,600,000	-	2,600,000
Compensated absences	3,273,638	-	3,273,638
Special assessment construction	-	3,271,651	3,271,651
Total	<u>\$ 35,429,891</u>	<u>\$ 4,204,406</u>	<u>\$ 39,634,297</u>

Note 10 - Stewardship, Compliance, and Accountability

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- Budgets must be adopted for the Special Revenue Funds. The Road Fund and the Subdivision Improvements Fund are Special Revenue Funds.
- Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- The budgets must be amended when necessary.
- Public hearings must be held before budget adoptions.
- Expenditures cannot exceed budget appropriations.
- Expenditures must be authorized by a budget before being incurred.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 10 - Stewardship, Compliance, and Accountability (Continued)

The Road Commission's budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund and Subdivision Improvements Fund budgets as adopted by the Board of Road Commissioners is included in the supplementary information.

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In July, the managing director of the Road Commission submits to the Board of County Road Commissioners a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. Prior to September 30, the budget is legally enacted by the passage of a resolution.
4. The managing director is authorized to transfer budgeted amounts between line items within an activity category, exclusive of certain exceptions, which require the approval of the Board of County Road Commissioners. These excepted items and any revisions that alter the total expenditures of any budgeted activity must be approved by the board.

Unexpended appropriations lapse at year end and encumbrances are not included as expenditures. The amount of encumbrances outstanding at September 30, 2005 is approximately \$12,725,000. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that insurance proceeds and costs related to the fire discussed in Note 14 were budgeted as revenue and departmental expenses, respectively, rather than as an extraordinary item.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 11 - Postemployment Benefits

The Road Commission provides health care benefits to all full-time employees and life insurance benefits to duty disability employees upon retirement, pursuant to agreements with various collective bargaining units or other action of the Oakland County Board of Road Commissioners. Currently, approximately 520 retirees and their spouses are eligible. The Road Commission includes retirees and their spouses in its health care plan, with no contribution required by the participant in most circumstances. Expenditures for postemployment benefits are recognized as the life insurance premiums and medical costs become due; during the year, this amounted to approximately \$3,346,000. The medical expenditures for retirees noted above are included in the Road Commission's total health care expenditures disclosed in Note 7.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than at the time the health care expenses are paid. The pronouncement is effective for the year ending September 30, 2008.

Note 12 - Defined Benefit Pension Plan

Plan Description

The Road Commission contributes to the Road Commission for Oakland County Retirement System (the "System"), which is the administrator of a single-employer public employees' retirement system that covers substantially all employees of the Road Commission. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The System currently requires no employee contribution. The obligation of the Road Commission to contribute to and maintain the System for these employees was established by negotiation with various collective bargaining units or other actions of the Oakland County Board of Road Commissioners. At December 31, 2004, the date of the most recent actuarial valuation, membership consisted of 445 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 551 current active employees.

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 12 - Defined Benefit Pension Plan (Continued)

A complete analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability is reported in the Road Commission's Retirement System financial report as of December 31, 2004. A copy of this report may be obtained from the Road Commission's administrative office, located at 31001 Lahser Road, Beverly Hills, MI 48025.

Significant Accounting Policies

The System is included in the Road Commission's financial statements as a Pension Trust Fund. At December 31, 2004, the assets of the Pension Trust Fund included no securities of or loans to the Road Commission or any other related party and there were no investments in any one organization (other than the U.S. government and U.S. government guaranteed obligations) in excess of 5 percent of net assets available for benefits. Please refer to Note 1 for further significant accounting policies.

Annual Pension Cost - For the year ended December 31, 2004, the Road Commission's annual pension cost of \$2,494,941 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of actuarial valuations at December 31, 2002 and 2003, using the individual entry age normal cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.0 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2004 was 14 years.

Reserves - As of December 31, 2004, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 212,749
Reserve for retired benefit payments	66,772,105

Road Commission for Oakland County

Notes to Financial Statements September 30, 2005

Note 12 - Defined Benefit Pension Plan (Continued)

Three-year Trend Information

	2002	2003	2004
Annual pension cost (APC)	\$ 1,573,200	\$ 1,895,360	\$ 2,494,941
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 13 - Construction in Process

Estimated future contract cost obligations related to completion of Road Fund construction projects in process at September 30, 2005, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$5,870,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

Note 14 - Extraordinary Item

In January 2004, there was a fire at one of the Road Commission's facilities. The fire destroyed or severely damaged not only the building but also numerous vehicles, pieces of equipment, and the supplies that were in the building at the time of the fire. The financial effects of the fire are reported in the financial statements as an extraordinary item.

At September 30, 2004, the Road Commission had recorded a balance of \$711,021 for insurance proceeds receivable. During the year ended September 30, 2005, the Road Commission collected \$494,865 of the receivable and recorded an addition to the insurance claim of \$285,572, resulting in an insurance claim receivable balance of \$501,728 at September 30, 2005. The revenue recognition of the receivable balance at both September 30, 2004 and 2005 was deferred at those dates in the Road Fund's statement of governmental revenue, expenditures, and changes in fund balance, but not the statement of activities, consistent with the Road Commission's revenue recognition policies.

Incremental costs related to the fire for security costs, equipment rentals, maintenance costs, and similar items, aggregating \$356,120 during the fiscal year ended September 30, 2005, are reported as a component of the extraordinary item rather than as expenditures in the statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities.

Road Commission for Oakland County

**Notes to Financial Statements
September 30, 2005**

Note 14 - Extraordinary Item (Continued)

The Road Commission has replaced the damaged building with an expanded and updated facility and has purchased or ordered vehicles and equipment to replace the assets lost in the fire. The actual cost of the improved facility and upgraded equipment fleet significantly exceeds the anticipated total insurance proceeds.

Supplemental Information

Road Commission for Oakland County

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended September 30, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Act 51	\$ 64,260,000	\$ 60,039,000	\$ 61,014,418	\$ 975,418
Other state sources	9,700,000	13,287,207	20,645,065	7,357,858
Federal sources	24,160,800	22,595,654	15,635,125	(6,960,529)
Revenue from county and local governments	27,658,000	24,051,443	15,136,002	(8,915,441)
Interest on investments	600,000	1,160,000	1,581,588	421,588
Fees and other revenue	2,189,000	1,742,600	1,691,337	(51,263)
Insurance proceeds - Net	-	296,000	138,745	(157,255)
Total revenue	128,567,800	123,171,904	115,842,280	(7,329,624)
Expenditures				
General administration:				
Board of County Road Commissioners	143,950	142,950	132,791	10,159
Managing director	848,376	889,137	826,511	62,626
Planning and development	1,343,961	1,577,223	1,127,045	450,178
Citizens' services	352,763	350,655	338,192	12,463
Finance department	916,459	932,169	923,508	8,661
Legal department	717,370	713,490	706,850	6,640
Human resources department	589,199	598,085	510,646	87,439
Total general administration	4,912,078	5,203,709	4,565,543	638,166
Central operations	11,170,209	13,885,466	11,535,182	2,350,284
Engineering department	5,966,503	5,782,735	5,276,509	506,226
Traffic department	12,559,324	13,020,755	10,204,779	2,815,976
Permits and environmental concerns	1,150,658	1,220,935	1,184,394	36,541
Maintenance department	23,531,120	29,656,033	26,086,119	3,569,914
Nondepartmental	18,282,929	18,481,084	17,369,469	1,111,615
Debt service	1,560,450	1,560,450	1,559,300	1,150
Total expenditures before project expenditures	79,133,271	88,811,167	77,781,295	11,029,872
Project expenditures:				
Road improvement program and construction	56,546,400	54,696,494	36,340,371	18,356,123
Southeast Michigan snow and ice management	730,000	23,400	23,273	127
Signals	5,447,000	3,007,483	2,438,992	568,491
Intelligent transportation systems	1,068,000	460,000	86,891	373,109
Total project expenditures	63,791,400	58,187,377	38,889,527	19,297,850
Total expenditures	142,924,671	146,998,544	116,670,822	30,327,722
Excess of Expenditures Over Revenue	(14,356,871)	(23,826,640)	(828,542)	\$ 22,998,098
Fund Balance - October 1, 2004	48,982,988	48,982,988	48,982,988	
Fund Balance - September 30, 2005	\$ 34,626,117	\$ 25,156,348	\$ 48,154,446	

Road Commission for Oakland County

Other Supplemental Information Budgetary Comparison Schedule - Subdivision Improvement Fund Year Ended September 30, 2005

	Subdivision Improvement Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Special assessment revenue	\$ 2,475,000	\$ 2,845,468	\$ 370,468
Interest	400,000	390,947	(9,053)
Total revenue	2,875,000	3,236,415	361,415
Expenditures			
Debt service	901,361	900,589	772
Project expenditures - Road improvement program and construction	3,212,100	3,135,554	76,546
Total expenditures	4,113,461	4,036,143	77,318
Excess of Expenditures Over Revenue	(1,238,461)	(799,728)	<u><u>\$ 438,733</u></u>
Fund Balance - October 1, 2004	5,004,134	5,004,134	
Fund Balance - September 30, 2005	<u><u>\$ 3,765,673</u></u>	<u><u>\$ 4,204,406</u></u>	

December 29, 2005

Board of County Road Commissioners
Road Commission for Oakland County
31003 Lahser Road
Beverly Hills, MI 48025

Dear Board Members:

We have recently completed our audit of the financial statements of the Road Commission for Oakland County for the year ended September 30, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

UPCOMING REPORTING CHANGE - OTHER POST EMPLOYMENT BENEFITS

As we mentioned in last year's letter, the Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize (but not necessarily fund) the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year-ended September 30, 2008.

As you are aware, the administration has already obtained an actuarial study addressing this future obligation and has reviewed the implications of the timing and the other elective alternatives related to the adoption of the pronouncement. As a result of this review, a new fund is being established as a vehicle to accumulate future contributions towards this obligation. We would like to commend the Road Commission for its early attention to this matter.

CURRENT REPORTING CHANGE – DEPOSIT AND INVESTMENT RISK DISCLOSURE

The Governmental Accounting Standards Board has recently released Statement Number 40, *Deposit and Investment Risk Disclosure*, an amendment of GASB Statement Number 3. The new Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. These disclosures have been addressed in Note 3 of the Financial Statements for the Road Commission's (non-pension) deposits and investments held at September 30, 2005.

TRANSPORTATION FUNDING

As you are no doubt aware, the State of Michigan in the summer of 2005 had indicated that it anticipated transportation related tax receipts to be approximately 3 to 4 percent lower than expected for the State's 2004-2005 fiscal year ended September 30, 2005. The lower tax receipts and the implication to future periods will likely result in reduced Act 51 payments to the Road Commission. The administration's ongoing close monitoring of this primary funding source has been an important aid in ensuring appropriate planning and timely reactions to changes in circumstances.

OTHER MATTERS

- During our testing of construction projects, we noted instances where federal revenue was recorded as state or other revenue. In order to ensure the proper identification and reporting of federal funds in the A-133 Federal Awards Financial Statements, it is important that federal funds be appropriately segregated from other state and locals funds. We recommend that an inquiry be made at the initiation of each project to determine if funds received from other entities represent federal funds being "passed through" to the Road Commission.
- During our testing of real estate transactions, we noted inconsistencies in the procedures followed for purchasing property and/or relocating homeowners. In one instance, we noted relocation forms were not used for the purchase, yet closing costs and moving expenses were covered by the Road Commission. In another instance, we noted that the appropriate standard forms were used, but the organization of the supporting documentation was difficult to follow. We suggest standardizing the procedures for filling out the appropriate paperwork and filing this paperwork timely and methodically.
- During the initiation of our testing of Davis-Bacon compliance, we noted that a significant amount of the required third-party documentation had yet to be received and reviewed by the Road Commission staff. While a strictly contemporaneous review of the third-party documentation is not required for compliance with Federal regulations, extended delays in the review procedures reduce the level of internal control and add to the difficulty in obtaining documentation to resolve issues or questions raised during the review. We believe that an increased focus on the timeliness of the performance of the Davis-Bacon compliance work will increase the internal controls of the Road Commission.
- Other accounting and procedural matters have been discussed with members of the Road Commission staff.

PRIOR YEAR'S OBSERVATIONS

We were pleased to note the extra attention given by the Road Commission staff to the "journal entries" item that was included in last year's letter of comments and recommendations.

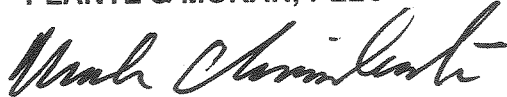
Board of County Road Commissioners
Road Commission for Oakland County

December 29, 2005

We would like to thank the Road Commission personnel for the courtesy and assistance extended to us during the audit. We would be happy to address any questions you may have regarding the annual financial report, the above comments and recommendations, or any other matters, at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Mark E. Chmielewski



Jenny L. Cederstrom

County of Oakland, Michigan

**Federal Awards
Supplemental Information
September 30, 2005**

County of Oakland, Michigan

Contents

Report Letter	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4-5
Schedule of Expenditures of Federal Awards	6-11
Notes to Schedule of Expenditures of Federal Awards	12
Schedule of Findings and Questioned Costs	13-14
Additional Information	15
Substance Abuse Prevention and Treatment - Schedule of Budgeted, Reported, and Audited Amounts	16
Substance Abuse Prevention and Treatment - Schedule of Expenditures and Funding Source by Program	17



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Independent Auditor's Report

To the Board of Commissioners
County of Oakland, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Oakland, Michigan for the year ended September 30, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 20, 2006. Those basic financial statements are the responsibility of the management of the County of Oakland, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the County of Oakland, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and additional information as reported in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in this schedule and additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

January 20, 2006



A worldwide association of independent accounting firms

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Commissioners
County of Oakland, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Oakland, Michigan for the year ended September 30, 2005 which collectively comprise the County's basic financial statements and have issued our report thereon dated January 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Commissioners
County of Oakland, Michigan

This report is intended solely for the information and use of the board of commissioners, management, the cognizant agency, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

January 20, 2006

Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133

To the Board of Commissioners
County of Oakland, Michigan

Compliance

We have audited the compliance of the County of Oakland, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2005. The major federal programs of the County of Oakland, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County of Oakland, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

To the Board of Commissioners
County of Oakland, Michigan

Internal Control Over Compliance

The management of the County of Oakland, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of commissioners, management, the cognizant agency, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 19, 2006

County of Oakland, Michigan

Schedule of Expenditures of Federal Awards Year Ended September 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Agriculture:		
Direct programs - Food Donation Program	10.550	\$ 40,212
Passed through the State of Michigan Department of Education:		
School Breakfast Program	10.553	99,813
National School Lunch Program	10.555	<u>177,537</u>
Total passed through the State of Michigan Department of Education		277,350
Passed through the State of Michigan Department of Community Health:		
Special Projects for Women, Infants, and Children	10.578	1,000
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	1,495,474
Passed through State of Michigan Department of Career Development -		
Food Stamps FY-05	10.561	347,591
Passed through State of Michigan Department of Natural Resources -		
Emerald Ash Borer Tree Planting Grant	10.664	<u>8,395</u>
Total U.S. Department of Agriculture		2,170,022
U.S. Department of Housing and Urban Development - Direct programs:		
Housing Counseling Assistance 03-04	14.169	38,324
Community Development Block Grants 00-01 Entitlement	14.218	*
Community Development Block Grants 01-02 Entitlement	14.218	*
Community Development Block Grants 02-03 Entitlement	14.218	*
Community Development Block Grants 03-04 Entitlement	14.218	*
Community Development Block Grants 04-05 Entitlement	14.218	*
Community Development Block Grants 05-06 Entitlement	14.218	*
Emergency Shelter Grant Program (ESG) 04-05	14.231	143,282
Emergency Shelter Grant Program (ESG) 05-06	14.231	7,787
HOME Investment Partnership Program 99-00	14.239	*
HOME Investment Partnership Program 01-02	14.239	*
HOME Investment Partnership Program 02-03	14.239	*
HOME Investment Partnership Program 03-04	14.239	*
HOME Investment Partnership Program 04-05	14.239	*
HOME Investment Partnership Program 05-06	14.239	<u>89,365</u>
Total U.S. Department of Housing and Urban Development		9,132,650

* Denotes a major program

County of Oakland, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended September 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Justice:		
Direct programs:		
Local Law Enforcement Block Grant 03-04	16.592	\$ 47,117
Local Law Enforcement Block Grant 03-05	16.592	47,012
Local Law Enforcement Block Grant 04-06	16.592	19,441
Public Safety Partnership and Community Policing Grant - COPS More	16.710	1,055,090
Clemis Integrated Biometric Identification System Grant	16.710	488
Total direct programs		1,169,148
Passed through the State Department of Community Health:		
Juvenile Accountability Incentive Block Grants 04-05 Grant Year	16.523	213,901
Juvenile Accountability Incentive Block Grants 05-06 Grant Year	16.523	208,123
Prosecuting Attorney Crime Victim Assistance	16.575	83,827
Byrne Formula Drug Control Policy Grants:		
Child Abuse Special Unit Byrne Grant	16.579	90,491
Community Corrections in Step	16.579	96,631
Family Focused Juvenile Drug Court Byrne Grant	16.579	122,488
Sheriff's Narcotics Team	16.579	354,868
52/1 Novi District Court Byrne Grant	16.579	66,765
Circuit Court Adult Byrne Grant	16.579	102,211
Jail Alliance with Support for Inmates with Co-occurring Disorders Grant	16.579	94,547
Total passed through the State Department of Community Health		1,433,852
Passed through the State Family Independence Agency - Juvenile Justice and Delinquency Prevention Act (BJJ)	16.540	14,725
Total U.S. Department of Justice		2,617,725

* Denotes a major program

County of Oakland, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended September 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number		Federal Expenditures
U.S. Department of Labor:			
Passed through Michigan Department of Labor and Economic Growth:			
SWA Displaced Homemaker PY-04	17.260	(2) *	\$ 17,560
SWA Displaced Homemaker PY-05	17.260	(2) *	2,666
Passed through Michigan Department of Career Development:			
Employment Services FY-04 (Wagner-Peyser)	17.207	(1) *	1,497,946
Employment Services FY-05 (Wagner-Peyser)	17.207	(1) *	449,851
Re-employment Services FY-04	17.207	(1) *	137,843
Re-employment Services FY-05	17.207	(1) *	16,228
Trade Adjustment Assistance/Trade 2 FY-04	17.245		6,959
Trade Adjustment Assistance/Trade 2 FY-05	17.245		656,660
Workforce Investment Act Administration PY-04	17.258	(2) *	524,884
Workforce Investment Act Administration PY-05	17.258	(2) *	157,830
Workforce Investment Act SWA Capacity Building FY-05	17.258	(2) *	23,520
Workforce Investment Act Adult FY-04	17.258	(2) *	1,496,165
Workforce Investment Act Adult FY-05	17.258	(2) *	349,937
Workforce Investment Act Youth FY-04	17.259	(2) *	943,881
Workforce Investment Act Youth FY-05	17.259	(2) *	683,559
Workforce Investment Act Reed One Stop Service Center FY-04	17.260	(2) *	24,385
Workforce Investment Act Reed One Stop Service Center FY-05	17.260	(2) *	573,915
Workforce Investment Act Reed Work First FY-05	17.260	(2) *	656,812
Workforce Investment Act Dislocated Worker FY-04	17.260	(2) *	2,178,944
Workforce Investment Act Dislocated Worker FY-05	17.260	(2) *	506,711
Workforce Investment Act Incumbent Worker FY-03	17.260	(2) *	96,595
Workforce Investment Act Incumbent Worker FY-04	17.260	(2) *	405,144
Incentive Inc. WKR (SWA) PY-03	17.260	(2) *	95,754
National Res. 02 Admin.	17.260	(1) *	6,000
National Res. 02 Adult	17.260	(1) *	60,246
Workforce Investment Act One Stop (SWA)	17.260	(2) *	879
Total passed through Michigan Department of Career Development			<u>11,550,648</u>
Total U.S. Department of Labor			<u>11,570,874</u>

(1) Denotes the Employment Service Cluster

(2) Denotes the Workforce Investment Act Cluster

* Denotes a major program

County of Oakland, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended September 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Transportation - Passed through Michigan Department of Transportation - Airport Improvement Program	20.106	\$ 158,768
U.S. Environmental Protection Agency:		
Direct Programs - Brownsfield Rev Loan Fund Grant #1	66.611	55,362
Passed through Michigan Department of Environmental Quality - EAD:		
State Revolving Fund - George W Kuhn Drainage Dist Segment 1	66.458	112,765
State Revolving Fund - George W Kuhn Drainage Dist Segment 2	66.458	1,032,345
State Revolving Fund - George W Kuhn Drainage Dist Segment 2 - EPA	66.606	867,300
EPA Indoor Radon Grant	66.032	7,500
EPA Grant - Operator Certification	66.471	60,939
EPA Grant - Arsenic Rule Implementation	66.468	6,047
Total passed through Michigan Department of Environmental Quality - EAD		2,086,896
Passed through Wayne County:		
Main 1-2 Storm Water Det. Pond Inventory Grant	66.600	* 54,350
Main 1-2 Stream Bank Inventory Grant	66.600	* 7,751
Rouge-Oakland Public Ed Activities Grant	66.600	* 1,808
Rouge-Oakland Public Ed 2 Admin (T17)	66.600	* 74,093
Edwards Drain - Stream Bank Stabilization Proj. 818330	66.600	* 136,635
Franklin Sub-Watershed	66.600	* 72,891
EFSDS III - Walnut Lake Pump Station Recon	66.600	* 1,172,265
EFSDS III - Force Main and Regulator Const.	66.600	* 1,534,664
Jamian Drain - Admin.	66.600	* 9,110
Total passed through Wayne County		3,063,567
Total Environmental Protection Agency		5,205,825

* Denotes a major program

County of Oakland, Michigan

Schedule of Expenditure of Federal Awards (Continued) Year Ended September 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services:		
Direct programs:		
TCE Culturally Sensitive Substance Abuse Treatment Grant	93.243	\$ 400,777
Social Security Incentive Payment	96.008	145,800
Passed through State of Michigan Department of Career Development:		
Work First Employment Related Services FY-05	93.558	* 225,000
Work First Temporary Assistance to Needy Families FY-05	93.558	* 2,796,975
Total passed through Michigan Department of Career Development		3,021,975
Passed through State of Michigan Family Independence Agency:		
F.O.C. Child Support Enforcement	93.563	* 7,274,694
F.O.C. Federal Incentives Payments	93.563	* 2,164,488
F.O.C. Medical Support	93.563	* 408,771
Prosecuting Attorney Child Support Enforcement	93.563	* 1,363,187
Child Support for Access and Visitation Programs	93.597	33,750
Total passed through State Family Independence Agency		11,244,890
Passed through State of Michigan Department of Community Health:		
Tuberculosis Outreach	93.116	49,771
Vaccines For Children	93.268	* 29,027
Immunization VFC Visits	93.268	* 11,550
Immunization Action Plan	93.268	* 513,533
Immunization Vaccine	93.268	* 3,494,223
Bioterrorism	93.283	634,446
MI Child	93.767	8,499
MDPH-OSAS Grant Medicaid Title XIX	93.778	101,928
AIDS Counseling and Testing Program	93.940	484,799
MDPH-OSAS Grant CA Admin	93.959	* 136,105
OSAS Grant Women Specialty	93.959	* 58,887
MDPH-OSAS Grant Treatment	93.959	* 2,208,318
MDPH-OSAS Grant Prevention	93.959	* 694,753
Minority Health	93.991	24,248
MCH Block - CHSCS Outreach/Advocacy	93.994	78,563
MCH Block - CHSCS Outreach/Advocacy	93.994	44,084
MCH Block - Maternal Infant Support Services	93.994	312,872
MCH Block - Child Health Conference	93.994	20,092
MCH Block - Field Nursing	93.778	6,300
Children's Village Screening Project	93.977	72,302
OSAS ABW Grant	93.767	69,738
Health Nurse Family Partnership	93.778	181,475
Health Child Lead Service Delivery	93.778	7,056
Infant Mortality Coalition Support Grant	93.778	32,500
Total passed through State of Michigan Department of Community Health		9,275,069
Total U.S. Department of Health and Human Services		24,088,511

* Denotes a major program

County of Oakland, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended September 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Homeland Security:		
Passed through State of Michigan Department of State Police - Emergency Management Division:		
Emergency Management Planning Grant	97.067	\$ 48,973
Emergency Management Supplemental Planning Grant	83.552	231,914
SHSGP Part II Training Grant	97.004 *	12,519
SHSGP Part II Solution Area Planner Grant	16.007	11,122
SHSGP Exercise Grant	16.007	8,830
State Homeland Security Program/LETPP - PY 04-05	97.004 *	2,659,928
State Homeland Security Grant	97.004 *	13,937
Community Emergency Response Team	97.053	36,665
Hazard Mitigation Grant Program	97.039	29,716
		<u>3,053,604</u>
Total passed through State of Michigan Department of State Police - Emergency Management Division		3,053,604
Passed through State of Michigan Department of Homeland Security - FEMA-CTP Digital Flood Insurance Rate Map	97.045	<u>9,871</u>
Total U.S. Department of Homeland Security		<u>3,063,475</u>
Total federal awards		<u>\$ 58,007,850</u>

* Denotes a major program

County of Oakland, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2005

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Oakland, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients from the Community Development Block Grant Program - Entitlement Grants for \$5,631,931.

County of Oakland, Michigan

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? ☐ Yes ☒ No
- Reportable conditions identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ☐ Yes ☒ No
- Reportable conditions identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

County of Oakland, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2005

Section I - Summary of Auditor's Results (Continued)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant - Entitlement Grants
14.239	HOME Investment Partnership Program
17.207	Employment Service Cluster
17.804	Employment Service Cluster - ESA Veterans
17.260	Workforce Investment Act Cluster
17.258	Workforce Investment Act Cluster
17.259	Workforce Investment Act Cluster - Youth
93.563	Friend of the Court
66.600	National Wet Weather
93.558	Workfirst
93.268	Immunization Vaccines
93.959	MDPH-OSAS
97.004	State Homeland Security Grant

Dollar threshold used to distinguish between type A and type B programs: \$1,740,236

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

Additional Information

Oakland County Health Division (Schedule A)
SUBSTANCE ABUSE PREVENTION & TREATMENT
Schedule of Budgeted, Reported, and Audited Amounts
For the Year Ended September 30, 2005

SCHEDULE A

Fund Source	Budgeted (FINAL)	Reported (FINAL RER)	Audited Expenditures	Variance (Audited-Reported)	Local Match Funds
A State Agreement					
1 Community Grant	\$4,478,525	\$4,478,293	\$4,478,293	0	
2 SDA	176,391	176,391	176,391	0	
3 SIG	0	0	0	0	
4 Methamphetamine	0	0	0	0	
A Subtotal	4,654,916	4,654,684	4,654,684	0	
B Medicaid					
1 Current Year PEPM (Federal & State)	1,800,000	1,702,314	1,702,314	0	
2 Reinvestment Savings	66,504	89,244	89,244	0	
B Subtotal	1,866,504	1,791,558	1,791,558	0	
C Adult Benefit Waiver (ABW)					
1 Current Year PEPM (federal share only)	106,350	100,054	100,054	0	
C Subtotal	106,350	100,054	100,054	0	
D MI CHILD					
1 Current Year PEPM	15,100	12,194	12,194	0	
2 savings	10,000	0	0		
D Subtotal	25,100	12,194	12,194	0	
E Local					
1 Current Year PA2	1,485,286	1,485,286	1,485,286	0	1,485,286
2 PA2 Fund Balance	0	0	0	0	0
3 Other Local (R325.4152 excluding subsection (1)(b))	\$550,000	\$913,045	\$913,045	0	913,045
E Subtotal	2,035,286	2,398,331	2,398,331	0	
F Fees & Collections- Subtotal (R325.4151 (1)(d))	\$136,700	\$165,835	\$165,835	0	165,835
G Other Contracts & Sources (Subtotal)	500,000	382,204	382,204	0	
Grand Total of Subtotals A-G	9,324,856	9,504,860	9,504,860	0	
Amount Billable to MDCH (Section A audited subtotal)			\$4,654,684		
Total MDCH Payments			\$4,654,684		
(Overpayment)/Underpayment			\$0		
Local Match Funds Total					\$2,564,166
Local Match Requirement [(Grand Total of Audited Expenditures-B-C-D-G) * 10%]					721,885
Local Match (Shortfall)/Excess					\$1,842,281

OaklandCounty Health Division (Schedule B)
SUBSTANCE ABUSE PREVENTION & TREATMENT
Schedule of Expenditures and Funding Sources by Program
Year Ended September 30, 2005

Program	Budgeted (FINAL)	Reported (FINAL RER)	Audited Expenditures				Audited Funding Sources							Total Funding	Variance (Audited-Reported)	Questioned Cost (Expenditures - Funding)
			Gross Amount	Less Medicaid	Less Fees	Net Amount	State Agreement	SDA	PA2	Other Local	Other Sources	ABW	MI CHILD			
Administration	\$687,883	\$716,004	\$716,004	\$222,315	\$3,600	\$490,089	\$302,455	\$0	\$0	\$187,634	\$0	\$0	\$0	\$490,089	\$0	\$0
Prevention	1,643,923	1,555,074	1,555,074	0	0	1,555,074	926,338	0	0	476,624	152,112	0	0	1,555,074	0	0
Treatment	6,610,171	6,834,647	6,834,647	1,475,400	162,019	5,197,228	2,944,424	176,391	1,485,286	248,787	230,092	100,054	12,194	5,197,228	0	0
Women's Services	156,010	172,445	172,445	93,843	86	78,516	78,516	0	0	0	0	0	0	78,516	0	0
HIV/EIP Training	226,869	226,690	226,690	0	130	226,560	226,560	0	0	0	0	0	0	226,560	0	0
SIG	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Methamphetamine	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Totals	\$9,324,856	\$9,504,860	\$9,504,860	\$1,791,558	\$165,835	\$7,547,467	\$4,478,293	\$176,391	\$1,485,286	\$913,045	\$382,204	\$100,054	\$12,194	\$7,547,467	\$0	\$0
							\$4,654,684									

Reconciliation of PA2 Funds:

Beginning Balance	\$0
Current Year PA2	1,485,286
Expenditures	(1,485,286)
Ending Balance	<u>0</u>

Reconciliation of Medicaid Managed Care (PEPM) Funds:

PEPM Payments Received	\$1,702,314
Medicaid Savings Carried Over	89,244
Expenditures	(1,791,558)
Medicaid Savings Carryforward	<u>0</u>
Returned to PIHP	<u>0</u>